



# Views From The Heartland

*Investment Perspective of Buena Vista Investment Management*

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## Confidence & Economic Activity Will Recover

### The Seeds of Economic Recovery are Now In Place

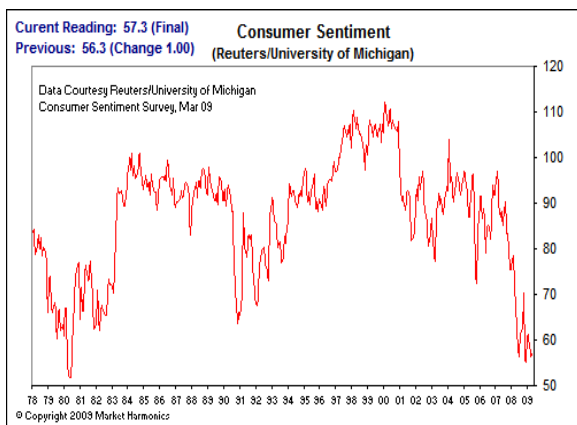
By John Moffat and Joel Sullivan, Partners

On Main Street when consumers are confident they buy a new car, new furniture, a new house or invest in the stock market. On Wall Street when traders and investment bankers are confident they are willing to put their capital at risk. When corporate CEOs are confident they invest in plant and equipment, they hire employees and they expand their business. When bankers are confident they lend money and take risk.

*The Circulation of Confidence Is Just As Important As The Circulation of Gold & Money*  
*James Madison, President of the United States of America*

In our fiber optically connected world, a world that has been flattened by technology, confidence can be a fragile thing. It doesn't make any difference if you are a business executive in the U.S., a trader in Hong Kong, a politician in the UK, a consumer in Russia or an investor in Wisconsin, all of us respond to the environment around us. In 2007 and 2008 oil and commodity prices skyrocketed and then collapsed. Financially

engineered, unexplainable products imploded, business executives cut jobs, markets tumbled, politicians were outraged and the media debated. It was the perfect storm to shatter business and consumer confidence.



According to The Conference Board, their CEO business confidence survey just hit its lowest level since its inception in 1976. The University of Michigan consumer sentiment index hit levels not seen since 1980 (Chart) and the ultimate in confidence indicators, the stock market, hit lows not seen since the mid 90's.

Is it any wonder that confidence has declined? We have listened as the media debate the end of capitalism or if we are in a depression. They have debated if we are headed toward long-term financial ruin due to the collapse of the banking system and the auto industry. None of this is good for the collective psyche!

As the famous golfer Ben Hogan once said... "Confidence is something that once you have it, you feel like you will never lose it and when you lose it you feel like you will never get it back"....

There are a number of reasons why we believe that confidence will return, economic activity will pick up and capitalism will survive. First, the foundation for this recovery starts with the federal government, as its response to get the economy growing again has been massive. Federal Reserve Bank Chairman Bernanke recently indicated in testimony before Congress that the Fed will use every tool available to help credit markets.

# Confidence & Economic Activity Will Recover (continued)

Its response has been to make available over \$800 billion in short-term loans to banks. It has also provided over \$200 billion to unfreeze securitization markets for credit cards, student loans and auto loans. In an effort to improve mortgage lending, the Fed has pledged up to \$1.25 trillion to purchase mortgage-backed securities. Recently, in an April 3<sup>rd</sup> speech in Charlotte, N.C., Mr. Bernanke indicated that the programs that the Fed has enacted are working.

Next, over the last few weeks the heads of some of the country's largest banks have started to discuss repaying TARP funds and some regional banks have already paid back the funds. The CEO's of JP Morgan, Bank of America, Wells Fargo and US Bank have all made positive comments about 1<sup>st</sup> quarter earnings.

Credit markets seem to have stabilized as we have seen pricing improve on fixed income securities, spreads narrow in the Libor market and new bond issues are being brought to market.

If you dig into the economic numbers you are beginning to see an improvement in activity. The retail sales numbers showed improvement in January and February. Housing numbers showed improvement in February due to the drop in mortgage rates and the affordability factor. Also, a better understanding of the stimulus plan's concession for first-time buyers has created an environment that is conducive for improvement in existing home sales. Business inventories are being worked off, which will ultimately require businesses to restock the shelves for future demand. Durable goods orders were positive in February. This is not to say every economic statistic is showing improvement but rather that we are seeing improvement in some numbers and in other cases, the numbers have stabilized.

This brings us back to confidence. It is our opinion that the foundation for economic recovery has been laid with the government stimulus, mortgage and banking plans. If this assumption is correct then the stock market should begin to rebound and with that rebound, consumer and business confidence will return.

In closing, our January newsletter detailed the reasons why we are bullish, including attractive valuations, dividend yields and a low interest rate environment. We may have been a bit early in this assessment but we remain confident that stocks will move higher in 2009. We are also confident that capitalism is not dead despite reports to the contrary. Most importantly, we are confident that we will recoup portfolio valuations sooner than most anticipate.

## **BUENA VISTA INVESTMENT MANAGEMENT LLC** **LONG-TERM MARKET INDICATORS**

Buena Vista Conservative Buy/Sell Discipline:	Negative (Substantial upside move in S&P 500 needed for "buy")
Leuthold Major Trend Index:	Positive (moved to positive in September 2008)
Coppock Guide:	Negative (close to issuing a long-term "buy" signal)
S&P 500 Stock Index:	797.81 (-11.67% thru 3-31-09)
Wilshire 5000:	8209.45 (-9.66% thru 3-31-09)

Important Disclosure – The performance numbers contained on this page are provided for informational purposes only. Returns may vary depending on personal objectives and timing of invested dollars. The performance numbers contained on this page are net of Buena Vista management fees and are based on investments held in a composite of accounts with like investment strategy. Contact Buena Vista Investment Management LLC for more specific information concerning performance and market data. Do not rely on this information to make investments.

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